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FEDERAL COMMUNICATIONS COMMISSION  
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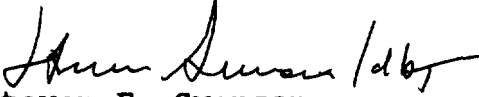
BILLED PARTY PREFERENCE  
FOR 0+ INTERLATA CALLS

CC DOCKET No. 92-77

ERRATUM

Teltrust, Inc. hereby re-files its Comments in the above-referenced proceeding. This erratum is necessary to include page 10 of Teltrust's Comments which was inadvertently omitted from the August 1, 1994 filing.

Respectfully submitted,

  
Steven E. Swenson  
General Counsel  
Teltrust, Inc.

August 2, 1994

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CC Docket No. 92-77

**COMMENTS**

Teltrust, Inc  
Teltrust Communications Services, Inc  
Teltrust Phones, Inc.

Steven E. Swenson

Attorney for Teltrust

221 North Charles Lindbergh Drive  
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August 1, 1994

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## SUMMARY

The market has further evolved beyond the need for BPP. While the original record establishes strong arguments in opposition to BPP, updated comments and analysis will provide further evidence that BPP is enormously costly, unnecessary and contrary to the public interest and convenience. Increasingly companies like Bell Atlantic, who originally supported BPP, now vigorously oppose this measure. They argue that consumer need for BPP has diminished, its marginal benefits do not outweigh its substantial costs, the ability to recover the high BPP implementation cost is questionable, and many of the purported benefits are unfounded.

BPP will devastate small companies like Teltrust, who have experienced tremendous growth in employment and earnings because of competitive products and enhanced services. Contrary to suggestions in the Further Notice, BPP will not result in a more competitive OSP marketplace. The opposite is true. BPP will greatly benefit large IXC's like MCI and Sprint. Small, specialized OSP/IXC's like Teltrust will not have the financial resources to refocus their business strategies and implement glitzy marketing campaigns to compete for end users. Consumers will be confused by the new balloting round and will most like simply default to their current one plus carrier. BPP will destroy the core revenue base of small OSP/IXC's, leaving them at a tremendous disadvantage in this newly reengineered marketplace. Independent payphone operators will also be damaged. Without being able to receive a fair return on 0+ calls, many payphones will no longer be economical to operate. Teltrust anticipates pulling nearly forty percent of its payphone route if BPP is implemented.

The added convenience BPP provides consumers is far outweighed by BPP's enormous cost. Consumers should have calling convenience, but not at any price. TOCSIA, changing

consumer calling habits and other trends have nullified the need for BPP.

Finally, Teltrust believes the Commission should establish a fair rate ceiling on OSPs and mandate implementation of an enforcement mechanism with teeth. This is a far less costly alternative to BPP and will achieve many of the Commission's stated goals. Consumers would experience relief from the highest priced OSPs and complaints to the Commission would decrease. To lessen the Commission's administrative burden in ensuring compliance with the rate ceiling, Teltrust advocates implementation of a scanning and rejection enforcement mechanism similar to that in place in California. This method could be implemented inexpensively and would assure compliance. It is imperative that any rate ceiling must consider the competitive realities small OSP/IXCs face. Teltrust and other specialized OSP/IXCs have very different cost structures than dominant IXCs and face difficult regulatory and market conditions. There are numerous market inequities which must be addressed in order to level the OSP playing field.

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Billed Party Preference	)	CC Docket No. 92-77
for 0+ InterLATA Calls	)	

**COMMENTS**

Teltrust, Inc., Teltrust Communications Services, Inc. and Teltrust Phones, Inc. ("Teltrust"),<sup>1</sup> by their undersigned counsel, hereby submit comments in response to the Commission's Further Notice of Proposed Rulemaking ("Further Notice") seeking additional comment on whether to implement the billed party preference routing methodology for 0+ interLATA payphone traffic and other types of operator-assisted interLATA traffic.<sup>2</sup>

**I. INTRODUCTION.**

While the estimated cost of implementing BPP is enormous, the need for BPP has diminished significantly since the Commission issued its original Notice of Proposed Rulemaking

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<sup>1</sup>Teltrust Inc. is a diversified telecommunications company serving the specialized telephone communications needs of clients around the world. Teltrust Communications Services, Inc. is a true integrated service bureau offering operator, switching, network, calling card and other teleservices to the independent payphone industry, IXCs, Competitive Access Providers and other aggregators. Teltrust Phones, Inc. operates approximately 1500 payphones in five western states. Teltrust filed Joint Comments in this proceeding with Cleartel Communications, Inc., Com Systems Inc. and International Pacific, Inc. Due to the importance of this decision to Teltrust's continued growth, Teltrust has decided to file independent comments.

<sup>2</sup>Billed Party Preference for 0+ InterLATA Calls, Further Notice of Proposed Rulemaking, CC Docket No. 92-77, FCC 94-117 (released June 6, 1994).

in 1992.<sup>3</sup> The marketplace has been transformed. The Further Notice, however, seems to have been created in a vacuum; touting the illusive benefits of BPP while ignoring the realities of a competitive marketplace that has changed significantly since BPP was first proposed.<sup>4</sup> The Further Notice tentatively concludes the benefits of BPP again outweigh its costs.

The record, Teltrust maintains, leads to the exact opposite conclusion. Comments submitted pursuant to the Commission's original NPRM demonstrated significant opposition to BPP from a wide spectrum of interested parties. A majority of parties filing comments (more than three quarters) opposed billed party preference because of its clear drawbacks: confusion and inconvenience to consumers, enormous implementation cost and diminishing benefits, anticompetitive effect on smaller companies; increase in call processing time and so on. Opposition to BPP came from all sectors of the industry; with most commenting parties concluding that BPP's enormous costs outweighed its benefits. Even those companies with the most to gain from BPP, the largest IXC's and the LEC's, offered a very mixed bag of opinion on its efficacy. LEC's filing comments were divergent in their opinion of BPP; over half were either neutral, highly dubious or opposed. BellSouth and NYNEX, while conceding BPP's conceptual appeal, opposed BPP outright due to its high cost and limited benefit. Southwestern Bell, US West and SNET were dubious, at best, about implementation of BPP; all three identified significant potential drawbacks. US West questioned whether "the asserted benefits of billed party preference would outweigh the related costs, particularly in light of legislation and Commission rule amendments aimed at eliminating end user inability to gain access to the

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<sup>3</sup>Billed Party Preference for 0+ InterLATA Calls, Notice of Proposed Rulemaking, CC Docket No. 92-77, 7 FCC Rcd 3027 (1992) ("NPRM").

<sup>4</sup>See United States v. Western Elect. Co., 698 F.Supp. 348 (D.D.C. 1988).

carrier of choice."<sup>5</sup> It noted further that "unless LECs can be assured of full recovery of total unseparated implementation costs, USWC would oppose billed party preference."<sup>6</sup> Southwestern Bell questioned "whether the asserted benefits of billed party preference may exceed the market willingness to pay."<sup>7</sup> Even those LECs favorable to BPP during the last round of comments, Bell Atlantic, GTE, and Pacific Bell, made their support contingent on assuring mechanisms for full LEC cost recovery.

Two years later, the marketplace has evolved even further beyond the need for BPP; and some significant companies have taken note. Bell Atlantic now vigorously opposes BPP.<sup>8</sup> As one of the original proponents of BPP, their change of heart presents telling evidence of the diminishing need for BPP.<sup>9</sup> In an Ex Parte presentation to Commission staffers, Bell Atlantic outlined its motives for now actively opposing BPP:

*CONSUMER NEED IS DIMINISHING*

TOCSIA and other regulatory initiatives are working  
Dial Around Services are growing in use and acceptance  
There are increasing alternatives to 0+ dialing

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<sup>5</sup>Comments of U S West at 2-3.

<sup>6</sup>Id. at 19.

<sup>7</sup>Comments of Southwestern Bell at 10.

<sup>8</sup>In their comments filed July 7, 1992, Bell Atlantic concluded BPP would make operator services more user friendly, would refocus OSP competition on end users, and would promote competitive parity. Nevertheless, Bell Atlantic also identified the extraordinary market risks LECs face in implementing BPP. Bell Atlantic cautioned that the benefits of BPP could be lost, and the cost of deploying BPP wasted, unless the Commission proscribed effective cost recovery mechanisms. Specifically, it encouraged the Commission to require the cost of BPP be recovered on access for all operator assisted calls — both 0+ and access calls. If this were not the case, and if LEC costs are recovered only on 0+ calls, IXCs could easily instruct customers to dial around BPP. Comments of Bell Atlantic at 6-7.

<sup>9</sup>See The Bell Atlantic Telephone Companies, Petition for Rulemaking To Establish Uniform Dialing Plan From Pay Telephones, filed April 13, 1989.



The Marketplace will have further evolved beyond need for BPP in 3 years

***MARGINAL BENEFITS DO NOT OUTWEIGH SUBSTANTIAL COSTS***

\$1.2 Billion cost will drive up the cost of all interLATA calls

\$1.2 Billion cost estimate is low, does not account for IXC and other expenses

Consumers should have calling convenience but not at any price

***ABILITY TO RECOVER HIGH COSTS ARE QUESTIONABLE***

Access code bypass will increase to avoid BPP

Consumers will dial around for savings, speed and convenience

Operator call volumes will decline due to alternatives

Retraining consumers will be difficult making cost recovery risky

All ratepayers will subsidize service designed to benefit small group

LECs cannot be expected to incur enormous costs based on marginal benefits

***PURPORTED BENEFITS OF BPP ARE UNFOUNDED***

Will not decrease fraud

Will not refocus competition on end-user

Will not solve problems of TOCSIA violations

Will result in more consumer confusion

Will result in Big-3 IXCs retraining

Similarly, other interested parties who were either in favor of BPP or who had reserved judgment are now either opposed or leaning in that direction. During the last round of comments, The National Association of Regulatory Utility Commissioners ("NARUC"), which had originally favored BPP, filed a resolution noting that it had grave concern regarding BPP costs and that it "reserves judgement on supporting BPP implementation until there is a more concrete determination of the costs and on the specifics of implementation at this time."<sup>10</sup> NARUC now appears even more dubious of BPP. In a Resolution on BPP adopted at its July 1994 meeting, NARUC encouraged the Commission to "thoroughly examine the updated record and the critiques of its cost/benefits analysis to assure that it clearly supports BPP

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<sup>10</sup>Resolution Regarding Billed Party Preference, attached to Letter to Donna Searcy, FCC Secretary, from James Bradford Ramsay, NARUC Deputy Assistant General Counsel, August 7, 1992.

implementation before taking any further action."<sup>11</sup>

Undoubtedly other interested parties who were either neutral or in favor of BPP will follow Bell Atlantic. Teltrust anticipates that other LECs, in particular, will take Bell Atlantic's lead primarily because LECs will be stuck with massive BPP investments which carry significant marketplace risks. The LECs have no hope of return on their BPP investment unless they increase access charges. Yet, the LECs face local competition and the need to redirect revenue to diversify to build the information superhighway. Such a cost recovery mechanism takes the LECs in exactly the opposite direction from their indicated strategic directions. Increasing access charges will lessen their competitiveness vis a vis competitive access providers and other companies seeking to offer local competition. Increased access charges will be passed through by IXC's to their customers who will then have the incentive to bypass BPP with now well known access codes and alternative access methods. Bell Atlantic identifies the very real risk that IXC's will exploit this situation, encouraging their consumers to dial around BPP for lower costs and more convenience. This will burden the BPP system with declining volumes from which to recover the massive investments made by the LECs.

While the original record in this proceeding established strong arguments in opposition to BPP, updated comments and analysis will, we believe, provide convincing proof that BPP is enormously costly, unnecessary and contrary to the public interest and convenience. Teltrust strongly urges the Commission to expedite their review of the updated comments submitted and conclude BPP is not in the public interest.

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<sup>11</sup>Resolution of Billed Party Preference, No. 14, adopted July 25, 1994.

## **II. BPP WILL DEVASTATE SMALL COMPANIES LIKE TELTRUST.**

Teltrust was encouraged by Chairman Reed Hundt's invitation at the May 19th Commission meeting to address the potential negative impact BPP will have on small businesses. The discussion of the purported benefits of BPP in the Further Notice was utterly void of any serious consideration of the competitive realities for small business in today's marketplace and the impact BPP will have on rapidly growing businesses like Teltrust and others. Teltrust can offer unique perspective as both an operator and network service provider and an independent payphone provider. The reality is that BPP will have a devastating impact on Teltrust.

### **A. BPP Will Destroy Jobs and Stifle Growth.**

Based in Salt Lake City, Utah, Teltrust employs approximately 450 people. This is up from 40 employees in 1990; 80 in 1991; 184 in 1992; and 281 in 1993. Employment at Teltrust is up over 1000% since 1990, when the company diversified its business, expanding from a small independent payphone provider to an OSP/IXC offering enhanced and specialized services to the independent payphone industry and other aggregators. Based on sales, Teltrust was Utah's fastest growing company and the 169th fastest growing closely held company in the United States in 1993.<sup>12</sup> Despite the dark cloud the threat of BPP casts over our businesses, Teltrust anticipates continuing its rapid growth in earnings and employment in 1994.

Teltrust has seen tremendous growth in all its businesses. Teltrust Phones, Inc., which operates a payphone route with approximately 1500 phones in five western states has experienced a 10% increase in phone placement in 1993; and 45% to date in 1994. Teltrust Communications Services, Inc. has also experienced tremendous growth serving as a 0+/0-

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<sup>12</sup>See The Inc. 500, Inc. Magazine, October, 1993.

operator and network service provider to the independent payphone industry and other aggregators. Teltrust is one of the largest OSP/IXC serving the independent payphone industry. The Company's success is due to its ability to offer enhanced unbundled services to customers at fair rates. Teltrust capitalizes on the efficiencies created by its expanding network,<sup>13</sup> a talented management team and the unique labor talent in Utah. Due to the influence of Utah's dominant culture, an influx of new immigrants, and a very low cost of living, Utah offers one of the most linguistically diverse, well educated and appealing labor pools in the United States. Teltrust employs hundreds of young people who have either served two year religious missions in foreign countries or who have recently immigrated to the U.S. Therefore the majority of Teltrust's bilingual operators have actually lived in the country of their second language. Many of these young people work at Teltrust in order to support themselves through college. Over 35% of Teltrust's employees are minorities as classified by U.S. government standards. Teltrust benefits greatly from their talents, and they, in turn, benefit from their employment at Teltrust.

And because of this ability to provide truly bilingual operators, Teltrust has developed a niche market which is continuing to expand. For many independent payphone providers and other aggregators in large metropolitan areas with multicultural populations like New York, Los Angeles and Miami, Teltrust has become the OSP/IXC of choice because of its unique ability to accommodate the independent payphone owners' desire to provide its consumers with truly bilingual operators. Increasingly, other IXCs, Competitive Access Providers ("CAPs") and international carriers are turning to Teltrust because of these unique advantages.

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<sup>13</sup>Teltrust offers its clients digital release link interconnection between switches operated in Los Angeles and New York and its operator center in Salt Lake City. The network offers Feature Group D Access everywhere it is available in the 48 contiguous states. The network employs SS7 signaling, adding speed and efficiency to streamlined network operations.

Implementation of BPP will drastically alter the growth Teltrust has experienced in all of its business over the last five years. Over ninety (90%) percent of Teltrust's gross revenues come from its 0+/0- operator and network services business. Teltrust relies on this ever growing revenue stream to fund ongoing strategic expansion and develop new product offerings. In the last two years and as a result of its tremendous growth, Teltrust has been expanding to serve as a specialized and unique on-ramp to the information superhighway. BPP will destroy the crucial source of revenue to continue this promising expansion; and small companies like Teltrust will be hardpressed to convince commercial lenders or the capital markets to invest new money after having its primary source of revenue gutted by regulatory means.

**B. Small OSP/LXCs Will Not Be Able to Effectively Refocus Their Competitive Efforts On End Users.**

The Further Notice concludes BPP will refocus OSP competition on the end-user rather than on premise owners. Ostensibly, the market and network reengineering brought about by BPP will result in lower prices, better service to consumers, and a leveling of the playing field now dominated by AT&T. To suggest that small OSP/LXCs "should" be able to fairly compete in this newly reengineered environment is wishful thinking.<sup>14</sup> Teltrust takes great exception to the cavalier attitude in the Further Notice regarding the effect of BPP on small companies. The Further Notice states that at least "some" of AT&T's competitors will be able to compete more effectively for customers who prefer not using access codes.<sup>15</sup> Indeed, BPP will give MCI, Sprint, LDDS and a few others a better opportunity to compete for 0+ business. But regulatory policy should not be crafted to preserve or increase the market share for only the largest

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<sup>14</sup>Id. at 18.

<sup>15</sup>Further Notice at 12.

companies. BPP will virtually eliminate smaller, specialized OSP competitors, other than the Big-3 IXC's (or four if the LDDS/WilTel sale is consummated) and a few others. Instead of focusing Teltrust's energies on end-users, BPP will focus Teltrust's energies on issuing pink-slips to its employees.

As numerous commenters have pointed out, BPP will result in essentially a transfer of the Big-3's one plus market share to the zero plus market, leaving small specialized OSP/IXC at a potentially insurmountable disadvantage. The Commission's analysis of BPP's effect on competition in the OSP market cannot be taken seriously. The balloting procedures discussed in the Further Notice will thoroughly confuse consumers, again, disadvantage small OSP/IXCs and assure the largest IXC's greater share of the 0+ market. The Further Notice recommends that if BPP is implemented, LECs will provide individual and business customers notice of their right to choose a 0+ carrier and a ballot for doing so. Teltrust (and numerous other commenters) estimate the vast majority of consumers, from 60 to 80 percent, will simply not respond to the balloting, in which case, under the scheme outlined in the Further Notice, the customer will be defaulted to their existing one plus carrier.<sup>16</sup> In this newly reengineered environment, in order to overcome consumer confusion and be chosen as a consumer's 0+ carrier, small OSP/IXCs would have to undertake massive marketing campaigns to establish name and product recognition. Teltrust and other small, specialized OSP/IXCs will not be able to muster the resources needed to completely refocus their business strategies, expand networks and services in order to attract end-users. A company with \$50 to \$75 million in annual revenues and an advertising budget of less than \$200,000.00 cannot mount a marketing campaign to compete with

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<sup>16</sup>Further Notice at 28-29.

a company with \$10 to \$20 billion in annual revenues. The annual advertising budgets of the Big-3 IXC's dwarfs that of small OSP/IXCs. AT&T spends approximately \$511,000,000 on advertising; MCI spends approximately \$207,000,000 and Sprint spends \$147,000,000 annually on advertising.<sup>17</sup> Indeed, AT&T's advertising budget exceeds Teltrust's gross revenues by a factor of eleven.

Make no mistake, BPP will destroy emerging competitors like Teltrust who have grown precisely because they have formulated realistic business plans which focus their energies and limited resources on identifiable narrow niches. These companies have capitalized on their strengths to offer enhanced competition to the Big 3 IXC's in certain specific market segments.

**C. BPP Will Damage Independent Payphone Providers.**

BPP will have an equally damaging effect on the independent payphone industry. The inability to derive commission revenue from phones will render many phones uneconomical to operate. The likely result for Teltrust Phones, Inc. if BPP is implemented would be to pull nearly forty percent of its 1500 payphones; as it would not be economical to operate these phones. These locations have yielded data that suggest coin and dial-around revenue are insufficient to justify maintaining these payphones. If this result were replicated nationwide, competition in the payphone market will be damaged.

**III. ADDED CONVENIENCE TO CONSUMERS IS A MARGINAL BENEFIT WHICH IS FAR OUTWEIGHED BY BPP'S SUBSTANTIAL COSTS.**

The Further Notice concludes BPP will eliminate the need for access codes and other alternative access methods and guarantee routing by the billed party's carrier. This is, it

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<sup>17</sup>CNN MoneyLine, June 23, 1994.

appears, the central benefit of BPP. This purported benefit is truly outweighed by BPP's significant cost, and rendered far less necessary by the success of the Telephone Operator Consumer Service Improvement Act (TOCSIA),<sup>18</sup> emerging consumer calling habits, and other recent trends in the industry. An undeniable trend in today's marketplace is the increasing use of access codes (10XXX) and alternative access methods (e.g. 1-800 COLLECT, 1-800 CALLATT, 1-800 PORCOBRAR) and other means of accessing consumers chosen carriers. These dial-around options now available to consumers have been augmented by TOCSIA and the Commission's rules implementing TOCSIA. There is no question that TOCSIA has drastically increased consumers control of the selection of the IXC that will handle the call. Further, unblocking, new signage requirements and audible branding provide consumers with the information necessary to reach the IXC of their choice.<sup>19</sup> Consumers now enjoy essentially all of the benefits promised by BPP.

Comments filed pursuant to the NPRM noted these trends two years ago.<sup>20</sup> Now, according to Teltrust's experience and research, the market has been transformed even further.

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<sup>18</sup>See Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA"), codified at 47 U.S.C. Sec. 226; Policies and Rules Concerning Operator Service Providers and Pay Telephone Compensation, CC Docket No. 90-35, Report and Order and Further Notice of Proposed Rulemaking, 6 FCC Rcd 4736 (1991); 47 C.F.R. Sec. 64.704 (a)(c)(1)-(5).

<sup>19</sup>The Further Notice cited the Final Report of The FCC Pursuant to The Telephone Operator Consumer Services Improvement Act of 1990, Nov. 13, 1992 ("TOCSIA Report"). In its TOCSIA Report, the Commission concluded that over ninety percent of telephones complied with TOCSIA requirements.

<sup>20</sup>Several commenters noted that TOCSIA and other commission initiatives had largely eliminated the need for BPP. See Comments of APCC at 25; Comments of NYNEX at 14; Comments of AT&T at 14; Comments of BellSouth at 4. BellSouth also noted that, in addition to successful legislative and regulatory initiatives to deal with abuses, new technical offering from LECs were expanding consumer choices in the operator service market. BellSouth specifically mentioned its Operator Transfer Service.



The major IXCs are aggressively promoting the use of access codes and alternative access methods to place 0+ calls. Consumers have learned to utilize access codes and alternative access methods to easily reach their preferred IXC. The Further Notice cites the Commission's TOCSIA Report, stating an estimated one third of operator services calls were made via access codes in 1991.<sup>21</sup> Teltrust's recent analysis of its own phones suggests that this figure may be very much higher. At Teltrust Phones, Inc. locations frequented by travelers (e.g. hotels, travel plazas and truck stops), Teltrust Phones Inc. has seen a marked upswing in access code and alternative access calling. In 1993, at such locations, we estimate approximately 39 percent of calls were made by access code or alternative methods; in 1994 this figure has risen to approximately 54 percent and continues to increase. These figures seem to correspond with what other companies are experiencing, but admittedly Teltrust's sample is limited and results vary depending on region and other variables. Nevertheless, we believe the updated record will demonstrate that consumer calling habits are outpacing the need for BPP. The marketplace has not sat idle waiting for a regulatory fix; proliferation of access codes, alternative access methods, debit and calling cards are addressing consumers needs today.

Finally, these trends undermine the contention that consumers find access codes particularly inconvenient. Manifestly, consumers are using these dial around methods frequently.<sup>22</sup>

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<sup>21</sup>Further Notice at p. 7.

<sup>22</sup>See Comments of BellSouth at 8-9. BellSouth focus group studies conducted by Bellcore which determined that most participants were familiar with the system of payphone presubscription and understood the use of access codes, which were not viewed as a significant issue by participants.

#### **IV. IMPOSITION OF A FAIR RATE CEILING ON OSPs IS A LESS COSTLY MEANS OF ACHIEVING CERTAIN BENEFITS OF BPP.**

The excessive rates charged by a few OSPs and the resulting consumer complaints are a significant factor driving the implementation of BPP. The Further Notice highlights these issues. First, the Further Notice concludes consumers could save a significant amount in OSP charges if BPP were implemented. The Further Notice estimates savings to consumers of approximately \$280 million per year by avoiding the highest priced OSPs.<sup>23</sup> Second, the Further Notice states that the Commission and state public utility commissions continue to receive complaints about excessively high OSP rates.<sup>24</sup> BPP would "significantly reduce the incidence of such complaints and any need to regulate OSP rates more actively."<sup>25</sup> The Further Notice states this would save taxpayer money by reducing regulatory costs.

Even assuming the estimated savings to consumers and other regulatory savings are as stated in the Further Notice, these benefits are still vastly overshadowed by BPP's enormous cost and can be achieved by much less costly means. As Teltrust noted in its earlier Joint Comments, it is ironic that, in attempting to bring down rates and lessen complaints at what amounts to less than 15 to 19 percent of aggregator locations, the Commission would mandate a solution that will almost certainly increase rates on all interLATA operator assisted calls at all aggregator locations.<sup>26</sup> The BPP solution is worse than the problem. The Commission has at

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<sup>23</sup>Further Notice at 8-9.

<sup>24</sup>Further Notice at 12, n. 31.

<sup>25</sup>Further Notice at 12.

<sup>26</sup>Comments of Cleartel Communications, Inc., Com Systems, Inc. International Pacific, Inc and Teltrust Communications Services, Inc. at 11-12.

its disposal a less costly alternative to accomplish these benefits.

Teltrust strongly urges the Commission to establish a fair rate ceiling and an enforcement mechanism with teeth. We urged the Commission in our Joint Comments to continue its Congressionally mandated review of OSP rates and underlying costs and, if necessary, implement appropriate industry-wide remedies. If now the problems are as significant as the Further Notice notes, then a rate ceiling is a much less costly alternative to BPP. TOSCLA provides the Commission a mechanism to regulate OSP rates.<sup>27</sup> The Act specifies that, if the Commission's rate review does not indicate that market forces are serving to assure that rates and charges are just and reasonable, the Commission shall establish regulations to provide such assurance and that "such regulations shall include limitation on the amount of commission or any other compensation given to aggregators by providers of operator services."<sup>28</sup>

However, in arriving at a fair rate ceiling, the Commission must consider the competitive environment in which small OSP/IXCs operate. OSP/IXCs like Teltrust are financially and structurally unlike the largest IXCs. The emerging competitive OSP business is highly capital intensive. Thus, where for instance, the Big 3 IXCs can average many capital costs over a very diverse investment (and revenue/product) base, the smaller, specialized OSP/IXC must earn a return on the margin of its products which are typical aimed at certain narrow niches and designed to enhance consumer services available from public communications equipment. Teltrust strongly believes that such narrow product and services focus has indeed fostered enhanced competition and ultimately benefited the consumer. Such narrow market and product

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<sup>27</sup>47 U.S.C. Sec. 226 (h) (4) (A)

<sup>28</sup>1990 Telephone Operator Services Consumer Improvement Act, 47 U.S.C. Section 226 (h)(4)(A).

focus, therefore, do not allow for the "averaging" of certain costs as is available to the dominant IXC's. Subsequently, in setting a rate ceiling, the Commission must consider these factors (and others like divergent and anticompetitive state regulation of OSP's and the lack of universally available billing and collection services). Teltrust suggests, in short, that little or no relationship exists between much of the cost structures for the Big 3 IXC's and that of small, specialized OSP/IXC like Teltrust. Any rate ceiling must certainly take into account these varying costing methodologies along with the product and market focus of the different tiers of carriers and the customers they serve. To ignore these differences and arbitrarily set a rate ceiling at a dominant carrier rate is a prescription for disaster for a small OSP/IXC.

TOCSIA also provides for an enforcement mechanism should the Commission establish a rate ceiling. TOCSIA requires OSP's to file informational tariffs specifying terms and rates. However, Teltrust believes there may be an alternative enforcement mechanisms available to the Commission which could avoid the administrative burden imposed on Commission staff in policing OSP rates. In California, an efficient rate ceiling enforcement mechanism is in place which could be replicated industry-wide. In order to enforce a rate ceiling on intrastate calls instituted by the Public Utilities Commission of the State of California, Pacific Bell has developed an editing capability to scan billing records originating from all payphones which have been submitted to Pacific Bell for billing and collection. Calls with a rate in excess of the established ceiling are returned to the billing customer indicating the reason for rejection. Returned billing records can be reprinted by the billing entity and resubmitted to Pacific Bell for

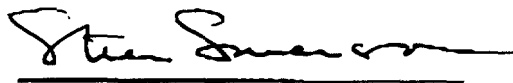
billing.<sup>29</sup> Teltrust believes such a scanning and rejection process can be implemented industry-wide to ensure compliance. We encourage the Commission to investigate such a process.

Teltrust strongly urges Commission institute a rate ceiling and effective enforcement mechanisms. We believe this a small price to pay when compared with the enormous cost to Teltrust and the public at large if BPP were implemented. However, should these measure be implemented, it will become even more crucial that the Commission continue to identify OSP market inequities and remedy these inequities whenever possible.

#### V. CONCLUSION

For the foregoing reasons, Teltrust urges the Commission not to mandate BPP.

Respectfully submitted,



Steven E. Swenson

Counsel for Teltrust

August 1, 1994

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<sup>29</sup>See Investigation Instituted on the Commission's Own Motion into the Operations, Practices and Regulation of Coin and Coinless Customer-Owned Pay Telephone Service, Decision 90-06-018, adopted June 6, 1990; Pacific Bell Advise Letter No. 15824, approved November 1, 1990.